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Annual Report 1976



Bartaco Industries Limited

Bartaco Industries Limited

and subsidiary companies

Corporate Offices: West Street, South,
Orillia, Ontario, L3V 6L3 - Tel. (705) 325-6121

OFFICERS and DIRECTORS - 1976

OFFICERS

DAVID L. CHANDLER, Chairman of the Board
DOUGLAS R. MCKAY, President
MELVILLE J. ELEMENT, Vice-President
FRANK W. SIMPSON, Secretary-Treasurer

DIRECTORS

DAVID L. CHANDLER, Executive
c/o Garvey, Ferriss
Toronto, Ontario

DOUGLAS R. MCKAY, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

MYRON S. GELBACH, Jr., Executive
Alco Standard Corporation
Philadelphia, Pennsylvania

HAROLD J. MURPHY, Q.C.
Garvey, Ferriss
Toronto, Ontario

FRANK W. SIMPSON, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

WILLIAM F. DRAKE, Jr., Executive
Alco Standard Corporation
Philadelphia, Pennsylvania

TRANSFER AGENT and REGISTRAR
Shares: National Trust Company Limited
Montreal, Toronto, Winnipeg and Vancouver

AUDITORS
COOPERS & LYBRAND
Hamilton, Ontario

LEGAL COUNSEL
GARVEY, FERRISS
Toronto, Ontario

STOCK LISTINGS
Ticker Symbol 'BTI'

ANNUAL AND GENERAL MEETING OF SHAREHOLDERS

The Annual and General Meeting of Shareholders will be held in the British Columbia Room at the Royal York Hotel, Toronto, on Tuesday, March 29, 1977, at 10:00 a.m., Toronto Time. Notice of this meeting, together with the Information Circular and Proxy Form is enclosed with this Report.

President's Report to the Shareholders:

On behalf of the Board of Directors, I am pleased to submit this Annual Report for the year ended September 30, 1976.

Consolidated sales for the year totalled \$10,980,882. down 12.7% over the previous year's restated sales of \$12,579,480. The company's operating profits from continuing operations were \$429,448. or 17¢ per share compared to \$641,403. or 26¢ per share for the previous year.

The company's net profit, after extraordinary items amounted to \$512,999. or 20¢ per share as compared with restated net profit of \$913,432. or 37¢ per share in fiscal year 1975.

Included in the net profit, as an extraordinary item, are the earnings made by the company from the sale of WAYNE FORGE LIMITED and the businesses formerly carried on by The Gas Machinery Company (Canada) Limited, Pyronics Canada Limited and the Electronic Division of Otaco Limited, all of which are wholly owned subsidiaries of Bartaco Industries Limited. This profit was \$73,306. The sale price was \$341,602., the most part of which has been paid in cash with the final balance due on March 31, 1977.

The sale was a continuation of management's ongoing policy of concentrating operations in the areas in which the management has both knowledge and expertise. The favourable terms of this transaction also helped to maintain the working capital of Bartaco Industries Limited which has been a primary goal of management for the past several years.

During the past year it has become increasingly evident that a substantial infusion of capital is required to facilitate the expansion and modernization of the manufacturing facilities in order to achieve productive economies and to meet increasing customer requirements. After exploring all areas of financing, management satisfied itself that the cost of either equity or debt financing would be prohibitive for a company this size. Accordingly, management investigated the acquisition of a company with substantial liquidity and on November 5, 1976, control of Redlaw Enterprises Inc. was acquired. Redlaw Enterprises Inc. has assets of approximately \$10-million, \$7.2-million being invested in cash items and the balance in a California based company engaged in the sale and leasing of heavy industrial, construction and mining equipment.

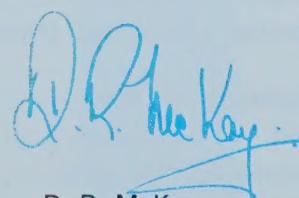
The company purchased 52 per cent of the outstanding shares of Redlaw Enterprises Inc. at a price of \$4,870,800 being \$4.10 per share. Financing was arranged through Galt Malleable Iron Limited by way of a \$4.8-million loan from the Royal Bank of Canada. In addition to this share purchase, the Vendor is committed to deliver a further 200,000 shares of Redlaw Enterprises Inc. and Bartaco Industries Limited is committed to purchase these extra shares. Management's plan is to utilize the capital available in Redlaw Enterprises Inc. to upgrade and expand the company's foundry operations.

On December 23, 1976, Galt Malleable Iron Limited which has voting share control of Bartaco Industries Limited along with management control entered into a share purchase agreement with Alco Standard Corporation, the beneficial owner of 1,305,939 of the common shares in the capital stock of Bartaco, for the purchase of those shares. Management feels that this transaction will be beneficial to the company as it allows management to take necessary steps in improving the company's performance more swiftly and efficiently.

Your directors wish to thank the employees for their dedicated service and the shareholders for their confidence and the interest shown by them.

The annual and general meeting of shareholders will be held in the British Columbia Room of the Royal York Hotel, Toronto, on Tuesday, March 29, 1977, at 10:00 a.m., Toronto Time. Notice of this meeting together with the Information Circular and Proxy Form is enclosed with this report.

On behalf of the Board of Directors.



D. R. McKay

D. R. McKay,
President.

Orillia, Ontario.
February 22, 1977.

Bartaco Industries Limited and Subsidiaries

Consolidated Financial Statements

Consolidated Statement of Income

For The Year Ended September 30

	1976	1975	(Restated)
	\$	\$	\$
REVENUES			
Net sales	<u>10,980,882</u>	<u>12,579,480</u>	
COSTS AND EXPENSES			
Cost of goods sold	8,175,250	9,396,677	
Selling, administrative and general (Note 8)	1,598,267	1,616,683	
Depreciation	263,667	259,007	
Amortization	15,180	9,000	
Interest	167,648	266,665	
Taxes on income			
Current	167,462	347,245	
Deferred.....	163,960	42,800	
	<u>10,551,434</u>	<u>11,938,077</u>	
NET INCOME FROM CONTINUING OPERATIONS (Note 9).....	429,448	641,403	
Operating losses of businesses sold during the year net of income taxes	142,342	87,451	
NET INCOME BEFORE EXTRAORDINARY ITEMS			
(Note 9)	<u>287,106</u>	<u>553,952</u>	
EXTRAORDINARY ITEMS			
Reduction of income taxes on application of prior years' losses...	127,032	310,932	
Write-off of net equity over cost for businesses sold.....	25,555	—	
Profit on sale of businesses sold	73,306	48,548	
	<u>225,893</u>	<u>359,480</u>	
NET INCOME FOR THE YEAR (Note 9).....	<u>512,999</u>	<u>913,432</u>	

Consolidated Statement of Retained Earnings

For The Year Ended September 30

	1976	1975
	\$	\$
Deficit - Beginning of Year -		
As previously reported	32,089	988,321
Prior period adjustment (Note 7)	<u>42,800</u>	<u>—</u>
Deficit - Beginning of Year -		
As restated	74,889	988,321
Net income for the year.....	<u>512,999</u>	<u>913,432</u>
Retained Earnings (Deficit) - End of Year	<u>438,110</u>	<u>(74,889)</u>

Consolidated Statement of Changes in Financial Position

For The Year Ended September 30

	1976	1975
	\$	\$
SOURCE OF FUNDS		
Funds provided by operations		
Net income before extraordinary items.....	287,106	553,952
Depreciation	279,328	262,388
Amortization	16,597	19,439
Deferred income taxes	163,960	42,800
Loss on disposal of fixed assets.....	6,734	—
	<u>753,725</u>	<u>878,579</u>
Proceeds on sale of businesses	94,041	48,548
Reduction in income taxes on application of prior year's losses..	127,032	310,932
Net increase in long-term debt.....	40,050	—
Proceeds on sale of fixed assets.....	2,188	8,158
	<u>1,017,036</u>	<u>1,246,217</u>
APPLICATION OF FUNDS		
Purchase of property and equipment.....	449,529	170,154
Increase in deferred charges	583,869	25,653
Decrease in long-term debt	—	187,695
	<u>1,033,398</u>	<u>383,502</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>(16,362)</u>	<u>862,715</u>
WORKING CAPITAL - BEGINNING OF YEAR	1,077,875	215,160
Increase (decrease) in working capital	<u>(16,362)</u>	<u>862,715</u>
WORKING CAPITAL - END OF YEAR.....	<u>1,061,513</u>	<u>1,077,875</u>
FUNDS REPRESENTED BY:		
Current assets	4,330,585	4,053,136
Current liabilities	<u>3,269,072</u>	<u>2,975,261</u>
WORKING CAPITAL - END OF YEAR.....	<u>1,061,513</u>	<u>1,077,875</u>

ASSETS

Current Assets

	1976 \$	1975 \$
Accounts receivable (Note 4).....	1,722,444	1,939,793
Inventories (Notes 2 and 4).....	2,113,345	2,055,185
Note receivable	221,757	—
Marketable securities (market value \$207,900).....	196,316	—
Prepaid expenses	<u>76,723</u>	<u>58,158</u>
 Total current assets.....	 <u>4,330,585</u>	 <u>4,053,136</u>

Property and Equipment

Land.....	9,002	9,002
Buildings and improvements.....	1,777,000	1,733,873
Machinery and equipment	<u>5,307,673</u>	<u>5,075,555</u>
 Less: Accumulated depreciation.....	 <u>7,093,675</u>	 <u>6,818,430</u>
	<u>3,265,832</u>	<u>3,131,131</u>
	<u>3,827,843</u>	<u>3,687,299</u>

Other Assets

Excess of cost of acquired companies over equity.....	—	80,950
Deferred charges (Note 3)	<u>738,461</u>	<u>171,189</u>
	<u>738,461</u>	<u>252,139</u>
	 <u>8,896,889</u>	 <u>7,992,574</u>

Signed on behalf of the board

D. R. McKay

Director

F. W. Simpson

Director

Balance Sheet

as at September 30

	1976 \$	1975 \$
LIABILITIES		
Current Liabilities		
Notes and advances payable to bank (Note 4).....	2,168,440	1,679,567
Accounts payable and accrued liabilities	1,005,682	1,109,376
Current portion of long-term debt.....	<u>94,950</u>	<u>186,318</u>
 Total current liabilities	<u>3,269,072</u>	<u>2,975,261</u>
 Long-Term Debt (Note 5)	<u>402,150</u>	<u>362,100</u>
 Deferred Credits		
Deferred income taxes (Note 7).....	206,760	42,800
Excess of equity in acquired companies over cost	—	106,505
Total deferred credits	<u>206,760</u>	<u>149,305</u>
 SHAREHOLDERS' EQUITY		
 Capital Stock (Note 6)	4,580,797	4,580,797
 Retained Earnings (Deficit)	438,110	(74,889)
	<u>5,018,907</u>	<u>4,505,908</u>
	<u>8,896,889</u>	<u>7,992,574</u>

Bartaco Industries Limited and Subsidiaries
Notes to Consolidated Financial Statements
For The Year Ended September 30, 1976.

1—Principal Accounting Policies

Principles of Consolidation

These consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned.

Inventories

Inventories are valued at the lower of cost, determined primarily on the first-in, first-out basis and net realizable value.

Fixed Assets

Fixed assets are recorded at cost. The majority of fixed assets, including all additions since 1969, are depreciated using the straight-line method at rates intended to write off the assets over their estimated useful lives.

Deferred Charges

Deferred development costs are being amortized based on units sold. Based on the company's current sales projections the accumulated deferred development costs will be fully amortized within three years. Amortization for the current year was \$2,512.

2—Inventories

	1976	1975
	\$	\$
Raw materials and supplies	1,056,852	1,030,845
Work-in-process	912,697	895,974
Finished goods	143,796	128,366
	<u>2,113,345</u>	<u>2,055,185</u>

3—Deferred Charges

Deferred charges include costs of \$619,233, net of government assistance, incurred in the development of new products for the Transit Seating Division of a subsidiary, Otaco Industries Limited. Assistance received from the Urban Transportation Development Corporation is subject to repayment by means of royalties at a reducing rate on units sold during the first six years of production with a minimum of \$80,000.

4—Security For Bank Advances

Bank advances are secured by a general assignment of accounts receivable and inventories, and shares of subsidiary companies.

5—Long-Term Debt

	Total	Payable Within One Year	Long-Term Portion
	\$	\$	\$
7 1/4% debenture due monthly to 1981	362,100	61,200	300,900
9% note payable annually, maturing in 1979	135,000	33,750	101,250
	<u>497,100</u>	<u>94,950</u>	<u>402,150</u>

6—Capital Stock**Authorized**

8,375 Preference shares with a par value of \$20 each, issuable in series
2,700,000 Common shares of no par value

Issued

7,075 6 1/2% Series A cumulative voting preference shares, redeemable at par	141,500
2,467,537 Common shares	4,439,297
	<u>4,580,797</u>

Preference share dividends in arrears amounted to \$23,010 at September 30, 1976.

7—Prior Period Adjustment

Net income for 1975 has been restated by \$42,800 to reflect deferred income taxes relating to that year. Utilization of losses carried forward in 1976 created a net deferred tax credit position, \$42,800 of which related to 1975.

8—Provision For Loss

An amount of \$277,000, representing the debt owing from a major customer which became insolvent during the year, has been charged against operations as a provision for bad debts.

Bartaco Industries Limited and Subsidiaries
Notes to Consolidated Financial Statements *continued*

9—Earnings Per Share

	1976	1975
	\$	\$
From continuing operations17	.26
From operations before extraordinary items11	.22
Net income20	.37

10—Businesses Sold

During the year the company sold its investment in Wayne Forge Limited and the businesses formerly carried on by The Gas Machinery Company (Canada) Limited, Pyronics Canada Limited and the Electronics Division of Otaco Limited. The profit on sale of these businesses is shown as an extraordinary item. For comparative purposes the revenues, costs and expenses for 1975 have been restated to eliminate the operations of businesses sold in 1976.

11—Contingent Liability

The company is the defendant in a lawsuit claiming damages against a predecessor company. In the opinion of legal counsel, the liability will not exceed \$50,000.

12—Future Income Taxes

The company has accumulated losses for income tax purposes of \$383,960 which may be carried forward and used to reduce taxable income in future years. These losses must be claimed no later than:

	\$
Year ending September 30, 1977	17,629
1978	42,705
1979	6,837
1980	265,189
1981	51,600
	<u>383,960</u>

13—Subsequent Event

On November 3, 1976 the company purchased approximately 52% of the outstanding common shares of Redlaw Enterprises Inc., a Delaware corporation listed on the American Stock Exchange, for U.S. \$4,870,800. The purchase was financed through a bank loan. The company has an option to purchase an additional 9% over the next two years at varying prices.

14—Dividend Restriction

The company is subject to restriction on the payment of dividends imposed by the Anti-Inflation Act.

15—Remuneration to Directors and Officers

Remuneration paid or payable to directors and senior officers amounted to \$159,296 (1975 - \$135,289).

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

OFFICES THROUGHOUT CANADA
AND IN PRINCIPAL AREAS
OF THE WORLD

TELEPHONE (416) 525-0002
105 MAIN STREET EAST
HAMILTON, ONTARIO, CANADA
LBN 1G6

November 26, 1976

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Bartaco Industries Limited and its subsidiaries as at September 30, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

CHARTERED ACCOUNTANTS.



BARTACO INDUSTRIES LIMITED